January 2019

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Great December Jobs Report; Shutdown Will Delay Data Releases

- The U.S. economy added 312,000 jobs in December, the biggest gain since February. December job growth was well above the consensus expectation of 180,000. The private sector added 301,000 jobs in December, with government employment up by 11,000. There were combined upward revisions to job growth in November and December of 58,000. Job growth averaged 220,000 per month in 2018, up from 182,000 in 2017. The unemployment rate rose 0.2 percentage point in December to 3.9 percent; even with the increase, the unemployment rate is still close to the lowest it has been in the past five decades. The increase in the unemployment rate came primarily from a larger workforce; the labor force increased by 419,000. As a result the labor force participation rate rose to 63.1 percent from 62.9 percent in November; this is the highest the labor force participation rate has been in more than one year.

- Despite recession talk in the wake of lower stock prices, the industrial sector held up well at the end of 2018. Industrial production rose 0.3 percent in December, the seventh consecutive monthly increase, and was up 4.0 percent from one year earlier. Manufacturing production rose 1.1 percent in December, the biggest monthly gain since February, led by a 4.7 percent increase for motor vehicles and parts. Manufacturing production was up 3.2 percent in December on a year-over-year basis. Mining production rose 1.5 percent in December, as domestic energy production continues to recover after a decline in 2015 and 2016. The capacity utilization rate in manufacturing jumped 0.7 percentage point in December to 76.5 percent, but remains well below its long-run average. Tightening capacity in the industrial sector will support business investment in 2019.

- The five-week government shutdown that ended on January 25 has delayed the release of some economic data. Some government offices remained open—in particular, the Labor Department continued to report data on jobs, the unemployment rate, initial claims for unemployment insurance, and inflation. But the Commerce Department was closed, delaying releases on retail sales, exports and imports, housing, consumer income and spending, and GDP, and it will take Commerce time to catch up with its regularly scheduled data releases. This will make it more difficult to gauge what is going on in the U.S. economy in early 2019.

*Baseline U.S. Economic Outlook, Summary Table**

	1Q'18a	2Q'18a	3Q'18p	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
Output & Prices												
Real GDP (*Chained 2012 Billions $*)	18324	18512	18665	18757	18887	19016	19144	19236	18051	18564	19071	19445
Percent Change Annualized	**2.2**	**4.2**	**3.4**	**2.0**	**2.8**	**2.8**	**2.7**	**1.9**	**2.2**	**2.8**	**2.7**	**2.0**
CPI (*1982-84 = 100*)	249.4	250.5	251.7	251.9	253.1	254.6	256.2	257.8	245.1	250.9	255.4	261.7
Percent Change Annualized	**3.5**	**1.7**	**2.0**	**0.4**	**1.8**	**2.5**	**2.6**	**2.5**	**2.1**	**2.3**	**1.8**	**2.5**
Labor Markets												
Payroll Jobs (*Millions*)	148.1	148.7	149.3	150.0	150.5	151.0	151.4	151.8	146.6	149.0	151.2	152.6
Percent Change Annualized	**1.7**	**1.7**	**1.7**	**1.8**	**1.3**	**1.3**	**1.2**	**1.0**	**1.6**	**1.6**	**1.4**	**0.9**
Unemployment Rate (*Percent*)	4.1	3.9	3.8	3.7	3.6	3.5	3.4	3.4	4.4	3.9	3.5	3.5
Interest Rates (Percent)												
Federal Funds	1.45	1.74	1.92	2.22	2.39	2.42	2.67	2.89	1.00	1.83	2.59	2.89
Treasury Note, 10-year	2.76	2.92	2.92	3.04	3.17	3.17	3.16	3.16	2.33	2.91	3.17	3.11

*a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.*

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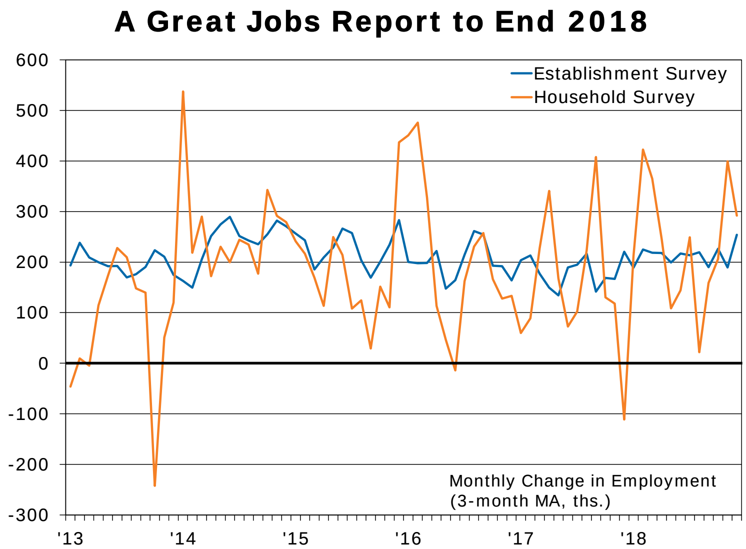
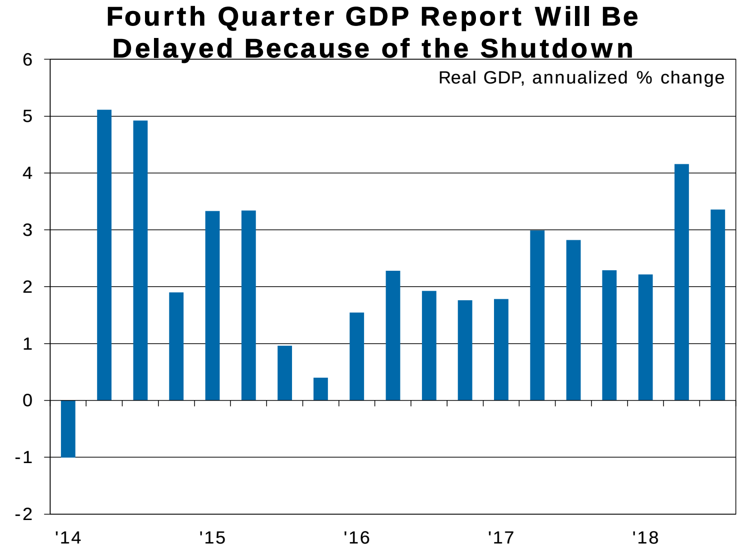




With Solid Fundamentals, Continued Economic Growth in 2019 Despite Extended Government Shutdown

Although the U.S. economy got off to a bad start this year with much of the federal government closed for the first four weeks of January, the current expansion should last throughout 2019. The economic fundamentals remain solid, especially for consumer spending and business investment. Growth will slow over the course of this year, however. And with the current economic expansion the second-longest in U.S. history, at more than nine years old, risks to the downside are increasing.

According to the Congressional Budget Office, the partial government shutdown caused a small hit to economic growth in the fourth quarter of 2018, when the government was shut down for one week, and a larger drag in the first quarter of 2019, when the government was shut down for almost four weeks. Annualized economic growth was lower by about 0.2 percentage point in the fourth quarter, according to the CBO, and by about 0.4 percentage point in the first quarter. The losses came from reduced services provided by federal government workers, reduced federal purchases of goods and services, and temporarily lower demand from the private sector. Thus PNC's January forecast, which was prepared before the extent of the shutdown was known, is too optimistic for the first quarter. The CBO then projects that economic growth will rebound to be 1.0 percentage point faster in the second quarter than expected before the shutdown. Overall, the CBO estimates that the shutdown has resulted in an initial loss of output of $11 billion, but $8 billion of that will be made up in the near term. Thus the permanent loss to the economy will be $3 billion in 2019, or just 0.02 percent of gross domestic product for the year.

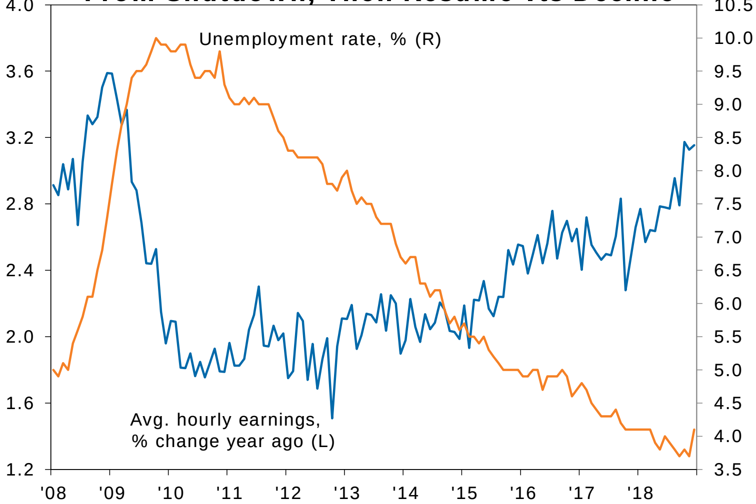
Thus the impact of the shutdown on the economy will be limited, and the expansion will continue this year. With solid fundamentals consumers will lead economic growth. Job gains averaged better than 200,000 per month in 2018, and with the tight labor market wage growth is accelerating. Consumer balance sheets are also in excellent shape. Business investment will be another positive for growth in 2019. Corporations are flush with cash, especially after the corporate income tax cut passed at the end of 2017. The tight labor market will spur businesses to invest to make their workers more productive. Although the economy took a temporary hit from the shutdown, overall federal fiscal policy will be a plus for growth this year. In addition to corporate and personal income tax cuts, Congress passed a big increase in federal spending that will boost growth through most of 2019. However, the positive impact of federal fiscal policy will fade over the course of this year and into next.

Trade will be a negative for U.S. growth in 2019. Global economic growth is slowing, in part because of increased trade barriers both in the U.S. and abroad. In addition, the housing market has slowed over the past half-year, although it may get a temporary boost from recent lower mortgage rates. The big drop in the stock market since the fall may make households and firms more cautious with their spending. And tighter monetary policy will weigh on interest-rate sensitive industries, such as housing and autos.

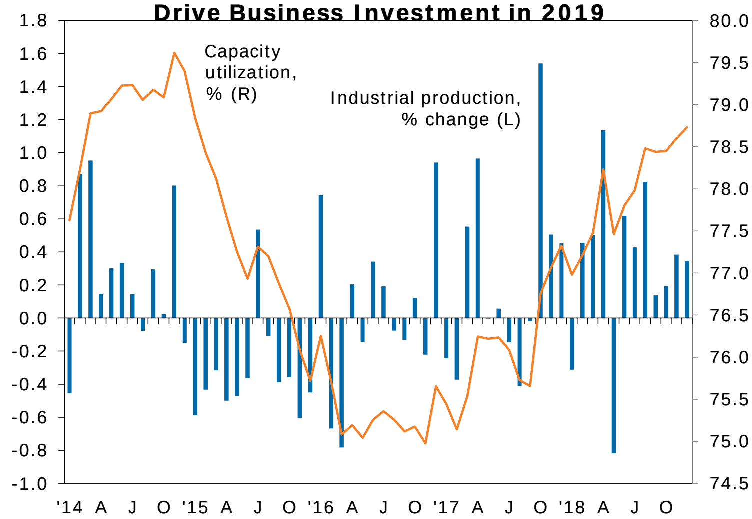
In addition, risks to the outlook are to the downside. There is potential for a global trade war that would be a significant drag on the world and U.S. economies. Also, the political outlook in the United States remains unsettled. And further stock market declines could spook consumers and businesses.

After growth of 2.8 percent in 2018, the U.S. economy should expand 2.7 percent this year. However, growth in the second half of this year will be noticeably slower as fiscal stimulus wears off. After averaging above 200,000 in 2018, monthly job growth will slow to around 150,000 in 2019 because of the tight labor market. The unemployment rate will rise in the wake of the shutdown but then resume its decline, to around 3.4 percent by the end of this year. With inflation slowing thanks to a big drop in energy prices, the Federal Open Market Committee will keep the federal funds rate unchanged in the first half of this year, giving the committee time to assess the fallout from the shutdown and stock market decline. The FOMC will then raise the fed funds rate once in the second half of 2019. Inflation will gradually settle near the Federal Reserve's 2 percent objective.

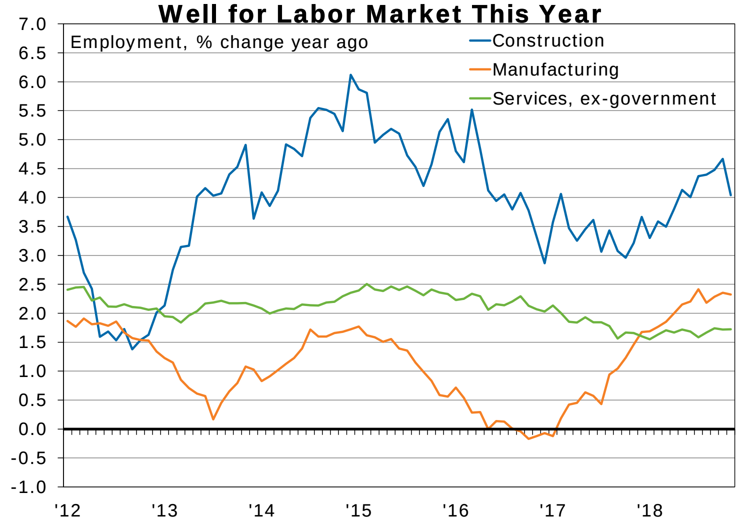
Unemployment Rate Will Rise in January From Shutdown, Then Resume Its Decline



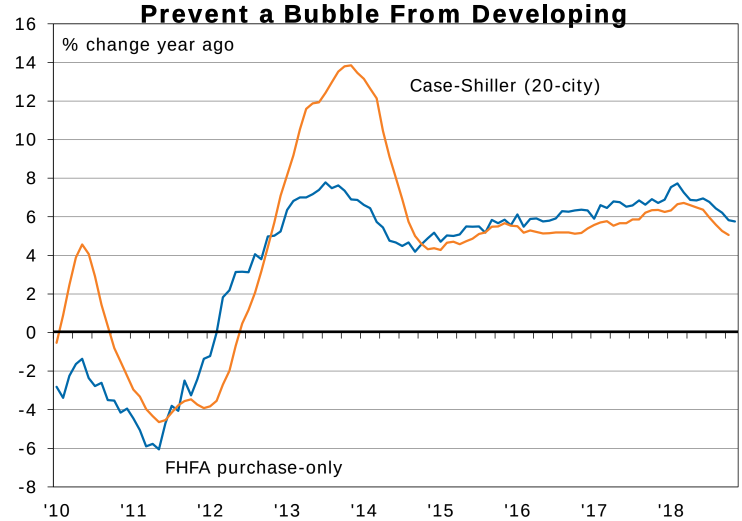
Rising Capacity Utilization Rate Will Drive Business Investment in 2019



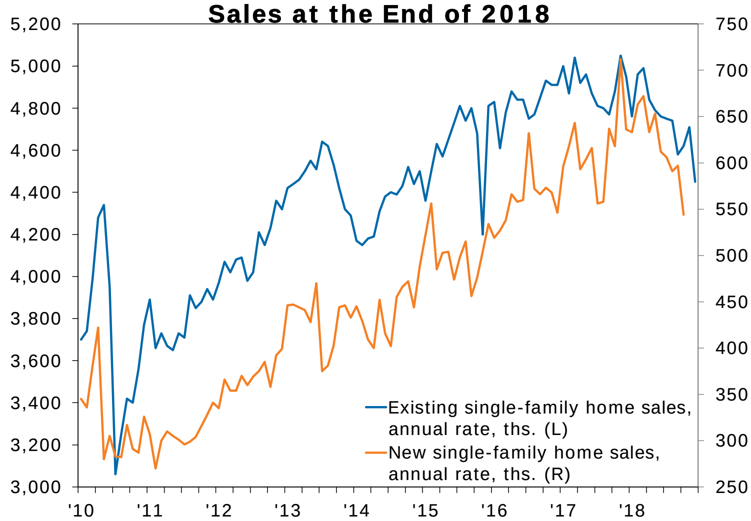
Broad-Based Job Growth Bodes Well for Labor Market This Year



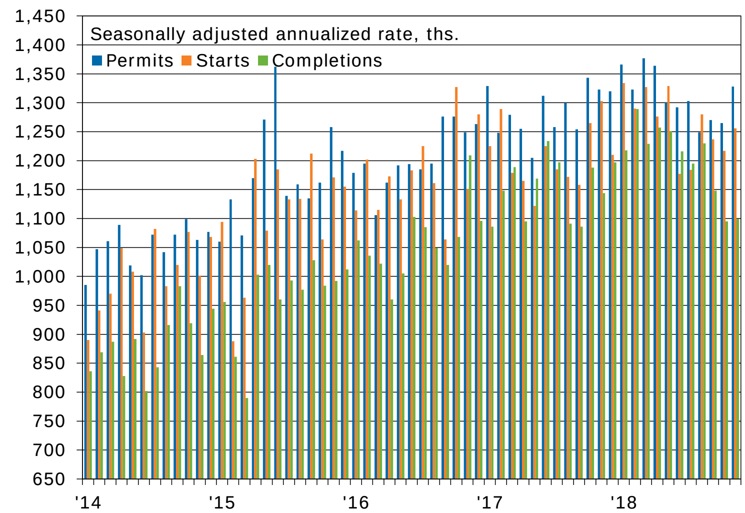
Slowing House Price Growth Will Prevent a Bubble From Developing



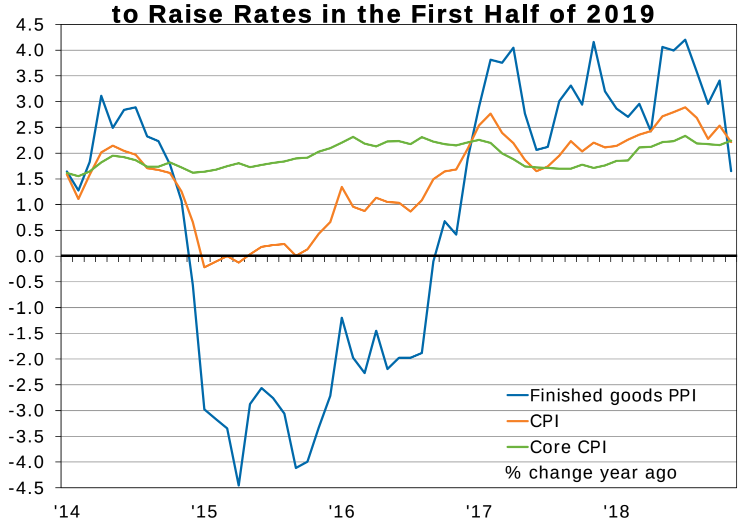
Definite Slowdown in Home Sales at the End of 2018



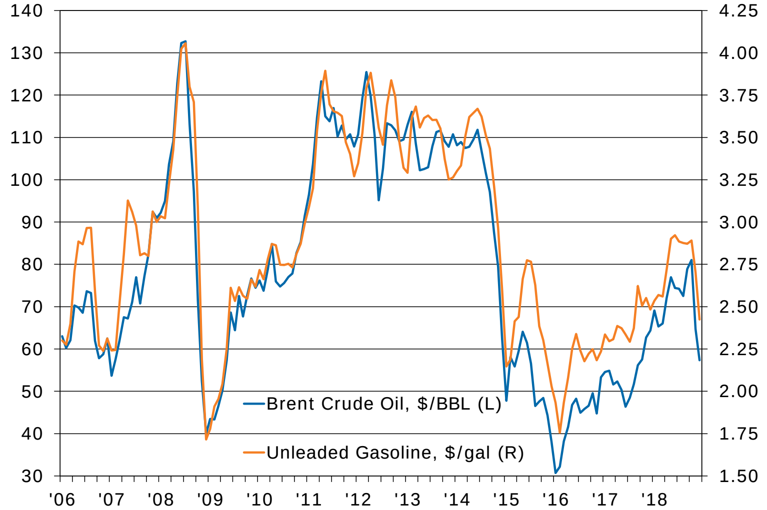
Shutdown Will Delay Homebuilding Data



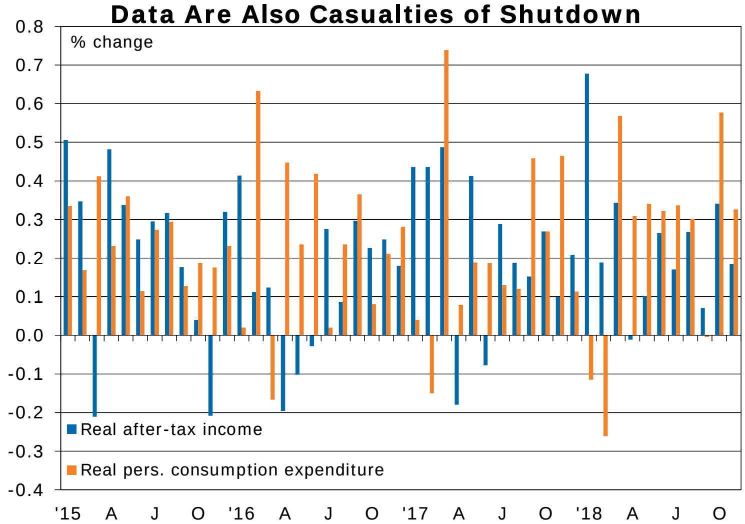
With Slowing Inflation, Fed Will Not Need to Raise Rates in the First Half of 2019



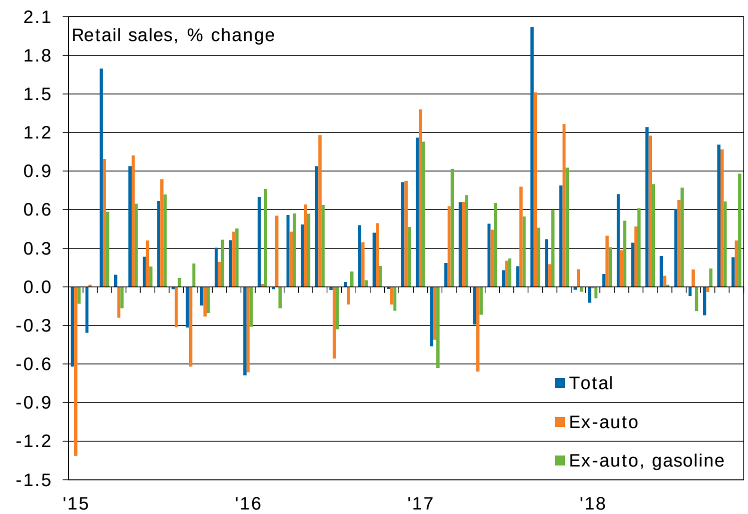
Lower Energy Prices a Plus for Consumers in Early 2019



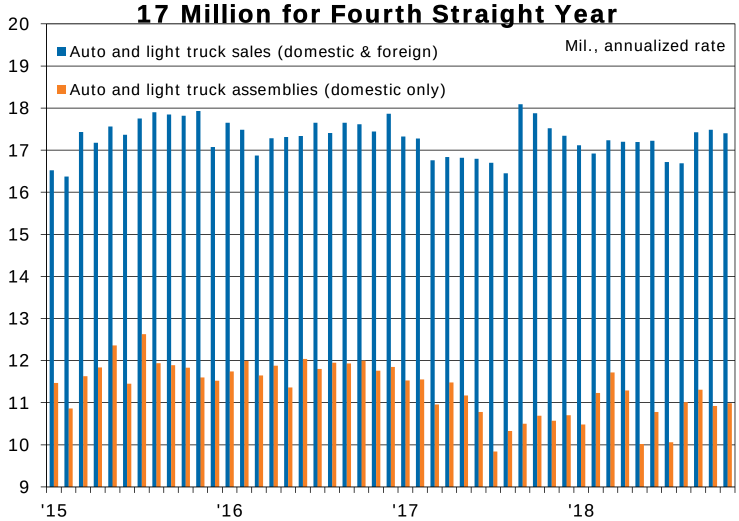
Personal Income and Consumer Spending Data Are Also Casualties of Shutdown



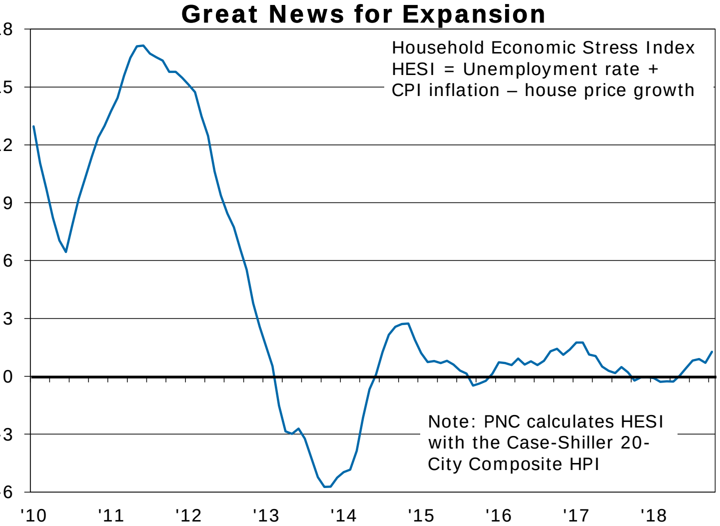
With Shutdown, No Data Yet on Holiday Sales



Auto Sales Up Slightly in 2018; Above 17 Million for Fourth Straight Year



Minimal Household Stress Is Great News for Expansion



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PNC Economics Group
January, 2019

Baseline U.S. Economic Outlook, Expanded Table

	1Q'18a	2Q'18a	3Q'18p	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
Output												
Nominal GDP (*Billions $*)	20041	20412	20658	20857	21089	21327	21589	21817	19485	20492	21455	22366
Percent Change Annualized	4.3	7.6	4.9	3.9	4.5	4.6	5.0	4.3	4.2	5.2	4.7	4.2
Real GDP (*Chained 2012 Billions $*)	18324	18512	18665	18757	18887	19016	19144	19236	18051	18564	19071	19445
Percent Change Annualized	2.2	4.2	3.4	2.0	2.8	2.8	2.7	1.9	2.2	2.8	2.7	2.0
Pers. Consumption Expenditures	12723	12842	12953	13075	13150	13216	13285	13349	12559	12898	13250	13495
Percent Change Annualized	0.5	3.8	3.5	3.8	2.3	2.0	2.1	1.9	2.5	2.7	2.7	1.9
Nonresidential Fixed Investment	2654	2710	2727	2759	2789	2821	2850	2872	2538	2713	2833	2911
Percent Change Annualized	11.5	8.7	2.5	4.8	4.3	4.7	4.1	3.1	5.3	6.9	4.4	2.8
Residential Investment	615	613	608	610	612	613	615	619	611	612	615	628
Percent Change Annualized	-3.4	-1.3	-3.6	1.4	1.6	0.4	1.6	2.1	3.3	0.1	0.5	2.1
Change in Private Inventories	30	-37	90	24	31	44	57	53	23	27	46	49
Net Exports	-902	-841	-950	-984	-998	-1005	-1012	-1019	-859	-919	-1009	-1012
Government Expenditures	3152	3172	3192	3228	3259	3282	3304	3318	3130	3186	3291	3329
Percent Change Annualized	1.5	2.5	2.6	4.5	3.9	2.9	2.8	1.7	-0.1	1.8	3.3	1.2
Industrial Prod. Index (*2012 = 100*)	105.9	107.3	108.5	110.0	110.7	111.3	111.8	112.2	103.7	107.9	111.5	112.9
Percent Change Annualized	2.5	5.2	4.7	5.5	2.5	2.3	2.0	1.5	1.6	4.1	3.3	1.3
Capacity Utilization (*Percent*)	77.2	77.8	78.3	79.3	79.8	80.2	80.6	80.9	76.1	78.2	80.4	81.4
Prices												
CPI (*1982-84 = 100*)	249.4	250.5	251.7	251.9	253.1	254.6	256.2	257.8	245.1	250.9	255.4	261.7
Percent Change Annualized	3.5	1.7	2.0	0.4	1.8	2.5	2.6	2.5	2.1	2.3	1.8	2.5
Core CPI Index (1982-84 = 100)	255.7	256.9	258.2	259.5	260.9	262.4	263.9	265.3	252.2	257.6	263.1	269.0
Percent Change Annualized	3.0	1.8	2.0	2.0	2.2	2.3	2.3	2.2	1.8	2.1	2.1	2.2
PCE Price Index (*2012 = 100*)	107.5	108.1	108.5	108.9	109.2	109.8	110.4	111.0	106.1	108.2	110.1	112.3
Percent Change Annualized	2.5	2.0	1.6	1.5	1.2	2.0	2.2	2.1	1.8	2.0	1.7	2.1
Core PCE Price Index (*2012 = 100*)	109.2	109.8	110.2	110.7	111.2	111.7	112.2	112.8	108.0	110.0	112.0	114.2
Percent Change Annualized	2.2	2.1	1.6	1.6	1.8	1.9	2.0	2.0	1.6	1.9	1.8	2.0
GDP Price Index (*2012 = 100*)	109.4	110.3	110.7	111.2	111.7	112.2	112.8	113.5	107.9	110.4	112.5	115.1
Percent Change Annualized	2.0	3.3	1.5	1.9	1.7	1.9	2.3	2.4	1.9	2.3	2.0	2.3
Crude Oil, WTI (*$/Barrel*)	62.9	68.1	69.7	59.3	58.2	59.6	61.0	62.3	50.8	65.0	60.3	64.5
Labor Markets												
Payroll Jobs (*Millions*)	148.1	148.7	149.3	150.0	150.5	151.0	151.4	151.8	146.6	149.0	151.2	152.6
Percent Change Annualized	1.7	1.7	1.7	1.8	1.3	1.3	1.2	1.0	1.6	1.6	1.4	0.9
Unemployment Rate (*Percent*)	4.1	3.9	3.8	3.7	3.6	3.5	3.4	3.4	4.4	3.9	3.5	3.5
Average Weekly Hours, Prod. Works.	33.7	33.8	33.8	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7
Personal Income												
Average Hourly Earnings (*$*)	22.40	22.58	22.75	22.96	23.15	23.35	23.54	23.73	22.05	22.67	23.44	24.22
Percent Change Annualized	2.8	3.3	3.1	3.8	3.4	3.4	3.3	3.3	2.3	2.8	3.4	3.3
Real Disp. Income (*2012 Billions $*)	14219	14282	14365	14414	14481	14528	14572	14617	13949	14320	14550	14753
Percent Change Annualized	4.4	1.8	2.4	1.4	1.9	1.3	1.2	1.2	2.6	2.7	1.6	1.4
Housing												
Housing Starts (*Ths., Ann. Rate*)	1317	1261	1234	1246	1265	1281	1292	1301	1208	1264	1285	1319
Ext. Home Sales (*Ths., Ann Rate*)	5507	5413	5273	5375	5445	5479	5508	5533	5536	5392	5491	5602
New SF Home Sales (*Ths., Ann Rate*)	656	633	598	592	596	601	605	607	616	620	602	611
Case/Shiller HPI (*Jan. 2000 = 100*)	199.7	201.9	203.7	204.7	205.8	206.7	207.8	209.0	191.6	202.5	207.3	211.9
Percent Change Year Ago	6.4	6.4	5.8	4.3	3.1	2.4	2.0	2.1	5.8	5.7	2.4	2.2
Consumer												
Household Economic Stress Index	0.0	0.2	0.7	1.2	2.0	2.7	3.2	3.6	0.7	0.5	2.9	3.8
Auto Sales (*Millions*)	17.1	17.2	16.9	17.5	17.2	17.1	17.1	17.0	17.1	17.2	17.1	16.9
Consumer Credit (*Billions $*)	3858	3886	3938	3990	4028	4068	4105	4143	3754	3918	4086	4246
Percent Change Annualized	3.3	2.9	5.5	5.4	3.9	4.0	3.7	3.7	5.5	4.4	4.3	3.9
Interest Rates (Percent)												
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.53	5.78	6.00	4.10	4.90	5.70	6.00
Federal Funds	1.45	1.74	1.92	2.22	2.39	2.42	2.67	2.89	1.00	1.83	2.59	2.89
3-Month Treasury Bill	1.58	1.87	2.07	2.36	2.47	2.58	2.70	2.81	0.95	1.97	2.64	2.89
10-Year Treasury Note	2.76	2.92	2.92	3.04	3.17	3.17	3.16	3.16	2.33	2.91	3.17	3.11
30-Year Fixed Mortgage	4.27	4.54	4.57	4.91	5.00	5.00	4.99	4.99	3.99	4.57	5.00	4.94

a = actual *f = forecast* *p = preliminary*

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